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03-27-2018 04:47 PM

Here's the latest update from Erin Joyner, Senior Vice President of Product Management for Higher Education.

In early December, when we announced the Cengage Unlimited subscription service, we knew that for many of our key stakeholders— instructors, authors, students, partners, as well as our own employees— this news would come as a surprise. This was a decision we did not take lightly; however, after careful thought, it was one we made to preserve our competitive advantage—including for you, our authors.

Since our initial announcement, we've stepped-up our efforts to be more communicative and transparent with you about Cengage Unlimited—how it will work and the business case for it. In short, we saw an opportunity to disrupt the market by making our quality learning materials more affordable and easier to access so that more students can use them and achieve their educational goals.

Based on thousands of conversations with many of you over the years, it is clear that educators, instructors and experts choose to become textbook authors because they want to share their expertise with as many people as possible. With Cengage Unlimited, we are increasing your chance of doing this. Already, based on our marketing and sales efforts this Spring, we are well ahead of where we have been in past years, at this point in the season. Here are a few highlights from a recent closed business report:

- **We're winning more new business!** Adoptions are up by more than 166K digital seats vs. the same time last year.
- **We're winning more often!** Boasting a 46% close rate compared to 22% last year.

While we remain cautious, our excitement is building. **Because a win for us is also a win for you.**

Status Quo Isn't an Option

The dynamics of our industry cannot be denied. Revenues for all textbook publishers have been declining during the past five years. On average, author royalty payments have declined at a similar, albeit slightly slower, rate. Again, disrupting the industry, and leading with affordability via a subscription service that has the potential to bring your authored materials to millions and millions MORE students, **is a disruption that this industry and students badly need.**

Author Royalty Calculation

We understand that our authors want as much detail as possible to alleviate any unease you are feeling about this new model. While we cannot make any guarantees of future performance, we are confident that Cengage Unlimited provides us the opportunity to halt the year over year declines that we've seen in textbook sales revenue. Given that author payments are directly linked to revenue, we expect that this will positively impact our royalty payments as well. **We all win together.**

For competitive reasons, we will not share a specific example of our Cengage Unlimited royalty calculation. That said, for purposes of this initial communication, we provide the components of the calculation below.

First: What Isn't Changing

It is important to note that *Cengage Unlimited is not replacing traditional access to Cengage materials*, and courseware can still be purchased standalone or as a bundle, and print editions will still be available for purchase and rental obtained through traditional channels.

Second: What Is Changing

The only change that we are announcing to the royalty calculation is for sales revenue generated by Cengage Unlimited subscriptions. Because the subscription covers access to not only courseware, but also ebooks and print rentals, we are working with independent consultants to create a fair and accurate royalty allocation structure for the subscription fees according to the relative value of each offering. How will it work?

The Cengage Unlimited royalty calculation is based on four key components:

1. Total net sales revenue generated by Cengage Unlimited subscriptions
2. Revenue pools established for Courseware, eBooks and Print Rental
3. Quantity and usage for each title and product type
4. The author royalty rate as set by the publishing agreement

This usage based model means that every title used by Cengage Unlimited subscribers earns a percentage of royalties; that percentage is based on the relative value of each solution within Cengage Unlimited (e.g., courseware, ebooks, print rental).

Cengage Unlimited Royalty Calculation



Glossary of Terms

Cengage Unlimited Total Subscription Net Revenue: The total subscription revenue captured for the period

Revenue Pools Allocation: Courseware, ebooks and print rental have designated revenue pools, based on their relative value to Cengage Unlimited subscribers

Revenue Pools: The total value for each of the pools for the reporting period

Title Quantity & Usage: The weighted average of the number of uses x by net price as a percentage of the total for each title and product type

Title Revenue Pool: Total value of a title by product type within each revenue pool (courseware, ebooks and print rental)

Author Royalty Rate: The royalty rate will be calculated the same as it is done today

Author Royalty Payment: The total author royalty value based on the sum of royalty values for each product type and title

Ensuring that our authors understand this royalty calculation is a priority. If you'd like more information, have specific questions or would like to discuss the components of the royalty calculation in more detail, reach out to your product manager directly. Please keep in mind, specific payments for individual authors will not be known until after we experience true demand for Cengage Unlimited in the Fall.

Third: Putting It All Together

With Cengage Unlimited available for the Fall 2018 semester, authors can expect first quarter of 2019 royalty statements and payments to reflect sale of all products—through traditional channels and Cengage Unlimited.

Simplifying Our Systems

We are currently developing and implementing royalty reporting systems and other business processes for the official launch of Cengage Unlimited (Fall 2018). We understand how important it is that we take the time needed to get the Cengage Unlimited royalty reporting process and systems right for our authors. With that in mind, our updated royalty reporting systems and processes will result in royalty statements that are easier to read and easier to understand.

Go-Forward Royalty Payment Calculation



You're Invited to Learn More

Fernando Bleichmar, Chief Product Officer, and Erin Joyner, Senior Vice President of Product Management for Higher Education, will host two webinars and all Cengage authors are invited to attend. These information sessions are for Cengage authors only and attendance will be strictly monitored to ensure that information is getting to our business partners directly. RSVP for one of our Cengage Author Webinar Events, on April 6 or April 19.

How to Contact Us

There are several ways to get information and answers to your questions:

- Contact your product director directly. Visit this blog post for detailed contact information.
- Send an email to Cengage-Authors@Cengage.com; we make every effort to respond to your emails in 3-5 business days, thank you in advance for your patience.

Be on the look-out for our next communication for authors in the coming weeks where we will share our progress to launch Cengage Unlimited in the Fall and other news you can use from Cengage.

Thank you for your partnership.



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Engaged with you.

Cengage believes that engagement is the foundation of learning...engagement is at our core and our focus is on engaging with learners, both in the classroom and beyond, to ensure the most effective product design, learning solutions and personalized services - all to help people learn. We understand that an engaged learner is a successful one and we are leading the transition to digital with a unique faculty AND student perspective to transform learning through engagement. Our name itself reinforces this core commitment - "engage" is at the "center" of all we do.

